

Full

British Columbia Telephone Company 1970 Annual Report



Directors

HARRY M. BOYCE
Chairman
Yorkshire Financial Corporation Limited
Vancouver, B.C.

JAMES J. CLERKIN, JR.
Executive Vice-President – Telephone Operations
General Telephone & Electronics Corporation
New York, N.Y.

THEODORE S. GARY
Vice-Chairman
General Telephone & Electronics Corporation
New York, N.Y.

VICTOR F. MacLEAN
President
Kelly, Douglas & Company Limited
Vancouver, B.C.

CYRUS H. McLEAN
Chairman
British Columbia Telephone Company
Vancouver, B.C.

JOHN A. McMAHON
Chairman and President
Inland Natural Gas Co. Ltd.
Vancouver, B.C.

WINFIELD S. PIPES
Retired
Formerly Executive Vice-President
British Columbia Telephone Company
Vancouver, B.C.

DONALD C. POWER
Chairman
General Telephone & Electronics Corporation
New York, N.Y.

J. ERNEST RICHARDSON
President and Chief Executive Officer
British Columbia Telephone Company
Vancouver, B.C.

RICHARD B. WILSON
Retired
Victoria, B.C.

Officers

CYRUS H. McLEAN
Chairman

J. ERNEST RICHARDSON
President and
Chief Executive Officer

GILBERT F. AUCHINLECK
Vice-President – Staff
(Operations)

JOHN H. BRUCE
Vice-President – Personnel
and Industrial Relations

JACK C. CARLILE
Vice-President – Finance

TERENCE F. HEENAN
Vice-President – Operations

GORDON F. MacFARLANE
Vice-President – Corporate
Development

ROLAND J. BOUWMAN
General Counsel and Secretary

D. BARRY McNEIL
Comptroller

AUBREY W. VAUGHAN
Treasurer

D. CAMPBELL
Assistant Secretary and
Assistant Treasurer

1971 is a year of Centennial celebration in British Columbia, marking the 100th anniversary of the July 20, 1871 events which brought this Province into the Canadian Confederation.

In our cover illustration and other pages of this report, we offer a reminder of this anniversary, together with a glimpse of the progress made by both the Province and the B.C. Telephone Company which serves it.

The coin booth sketched for the cover is a reproduction of a special installation designed in the fashion of the past and installed to recognize a milestone. During 1970, we reached, and then exceeded, 1,000,000 in the number of phones connected through our system in British Columbia.

The occasion was recognized on June 10th, 1970 with the unveiling of this coin station in "Gastown", site of the original settlement which became Vancouver and an area of the city's downtown now being restored as an historic point of interest. The inset photo shows one of the latest coin booth designs.

British Columbia, the sixth province to enter the Canadian Confederation, has seen vast development and change during this century. Its future potential is even greater.

For 90 years this Company and its predecessor companies have served British Columbians, expanding and improving facilities to meet their demands. We look forward to further growth as we continue meeting the communications challenge in serving this great Province.



79th Annual Report

British Columbia Telephone Company

Incorporated by Special Act of the Parliament of Canada, April 12, 1916

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TRANSFER AGENT AND REGISTRAR: Montreal Trust Company
HEAD OFFICE: 768 Seymour Street, Vancouver 2, B.C., Canada

Annual General Meeting

The Annual General Meeting of the Shareholders of the Company will be held on Thursday, March 11, 1971, at 11:00 a.m. in the Board Room of the Hotel Vancouver, Vancouver, British Columbia, Canada.

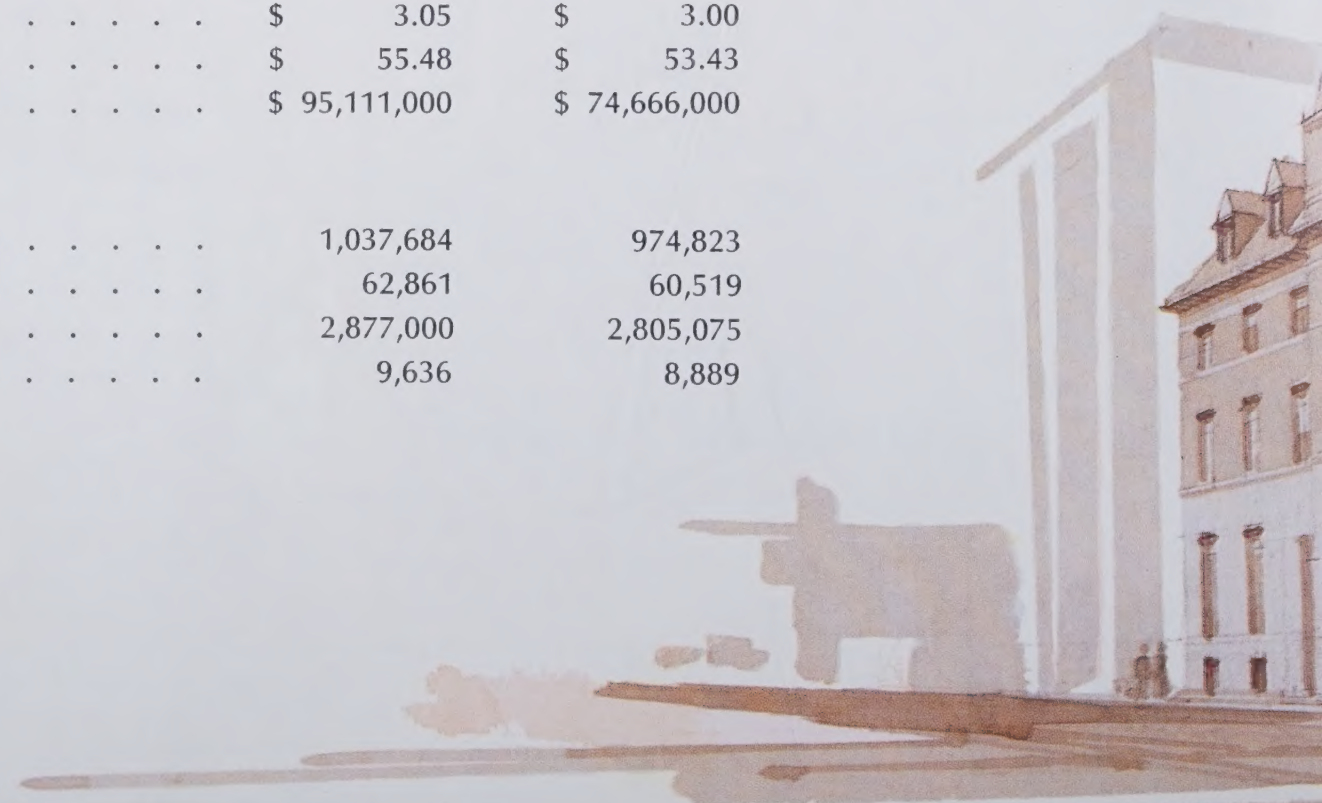
The Report at a Glance

FINANCIAL

	1970	1969
Operating revenues	\$174,870,000	\$158,044,000
Operating expenses	\$139,644,000	\$125,236,000
Earnings before interest and other deductions	\$ 36,739,000	\$ 33,935,000
Average invested capital	\$523,325,000	\$479,433,000
Return on average invested capital	7.02%	7.08%
Ordinary share earnings	\$ 14,661,000	\$ 14,804,000
Earnings per average ordinary share	\$ 5.10	\$ 5.28
Dividends declared per ordinary share	\$ 3.05	\$ 3.00
Equity per ordinary share	\$ 55.48	\$ 53.43
Gross plant additions	\$ 95,111,000	\$ 74,666,000

OTHER

Telephones in service	1,037,684	974,823
Telephone gain for the year	62,861	60,519
Average ordinary shares outstanding	2,877,000	2,805,075
Number of employees	9,636	8,889





Changing skylines bring new phone needs. Million-dollar switching-distribution system will serve occupants of this Vancouver structure.

Report of Directors

The potential for growth is perhaps no greater anywhere in North America than in British Columbia, the resource-rich province our Company serves.

Realization of this potential came at a slightly slower pace in 1970, a result of many circumstances, including general national and international economic conditions and a record time loss incurred by work stoppages in major British Columbia industries.

Progress was made in some areas, however — with development continuing to follow the typically British Columbia pattern of people moving to where resources are found, which frequently means remote sites hundreds of miles from settled communities.

These circumstances created a somewhat anomalous situation for our Company in 1970. The rate of growth in demands



J. Ernest Richardson; President & Chief Executive Officer

Two ways to same end — service. Portable exchange (left) meets dial phone needs in Bella Coola. Larger permanent structure was completed in 1970 to meet Brackendale requirements.



for service slowed a little; but, of necessity, the pace of expansion of the telephone system was accelerated.

Use of our services increased during the year, but at a rate of increase reduced from that of the previous year. The number of telephones connected through the facilities of our consolidated system, for instance, increased by 6.4%, compared with 6.6% in 1969. And the volume of long distance calling was up by 11% against a 16% gain in the previous year.

There was no easing, however, in the pace of expansion essential to meet customer demands throughout the province. The pace, in fact, quickened with a record \$95,000,000 in gross additions to our plant. New local exchange service installations were required for communities springing up or expanding in locations far removed from major population centres. New and improved long distance facilities across rugged, mountainous terrain were needed to provide transmission highways for the flow of traffic from business and governmental headquarters in the populous centres to their branches and plants in new and enlarging communities spawned by resource developments.

The cost of capital to build new facilities reached record highs during the year. Operating expenses, including supplies, labor, depreciation and property tax costs increased, as did the amount of our uncollectible revenues. The latter resulted largely from economic conditions generally, which brought about substantial increase in unemployment and in personal and commercial failures. Together, all of these influences had their impact upon our earnings during 1970.

Gross revenues increased by 11%, but again the rate of increase was below that of 1969 when the gain was 13%. With operating expenses and the cost of debt financing higher, earnings available for ordinary shares declined slightly in total, to \$14,661,000 in 1970 compared with \$14,804,000 in the previous year. The effect of this, together with the fact that a larger average number of shares were outstanding in 1970, brought a reduction of 18 cents in average per-share earnings, to \$5.10 from \$5.28 in 1969. Dividends declared totalled \$3.05 per share, against \$3.00 in the previous year.

The effects upon revenues of the economic conditions mentioned above and the increasing costs, especially in debt financing, were felt to a degree through much of the year. But it was in the last quarter that their impact was greatest.

Indications then and since are that improvement will take place progressively during 1971 as British Columbia's general economy turns upward. Signs have indicated some easing of financial restraints in the provincial, national and international economies and an expansionist attitude is being encouraged by Canadian and British Columbia governments. Improvement in the province's economy will stimulate our Company's growth.

It is clearly evident, however, that this stimulation alone will not be sufficient to provide the revenues essential if we are to be able to continue to meet our obligations to provide further expansion and improvement in our services to customers throughout British Columbia. Thus, as reported in our preliminary financial statement, rate relief is being sought.

Services, including communication, must go where people settle — and settlements are widely separated in British Columbia. Shortest distance between communities shown on these pages is 200-air-line miles; longest is more than 500.



School building set in place, Alert Bay.



Provincial Building, Duncan.

We face heavy capital requirements during 1971, both for refunding of \$35,500,000 in maturing debt and for expansion. Our Series A, B, C and D First Mortgage Bonds, which carry an average interest rate of 3.8%, mature March 1, 1971. Just prior to the printing of this report \$35,000,000 was raised through the issue and sale of additional First Mortgage Bonds at an interest rate of 8¼ %.

Our consolidated expansion program this year will involve gross investment of almost \$117,000,000, the minimum deemed necessary to meet the requirements of the province we serve, and we anticipate an additional \$565,000,000 will be required for expansion and improvement of our plant from 1972 through 1975. About half of this amount will have to be raised in the financial market place in competition with other borrowers. Obviously, we must maintain earnings levels which are appealing to investors.

During the years since the beginning of 1959, we have expanded and improved service offerings and maintained earnings without upward revision of our rate structure; this largely as a result of the careful application of improved techniques and technology and the benefits of a decade of substantial growth in British Columbia.

These factors alone are no longer sufficient to overcome the inflationary effects of the last 12 years and to meet current and foreseeable requirements. Accordingly, we have filed an

application with the Canadian Transport Commission, which regulates our Company, for approval of a general revision to our exchange rate structure, together with other rate changes in toll and miscellaneous services. This is the first such request we have made in more than 12 years.

The Commission will conduct public hearings to examine our application and, in due course, will render a decision. In the event the rate changes requested obtain approval for implementation effective August 1, 1971, as we have asked, they would generate additional gross revenues of about \$6,000,000 by year end.

The challenge our Company faces in the year ahead continues to be great and we are — as we must be — prepared to innovate and adjust to meet it. We move forward with enthusiasm, knowing that the foundation upon which we are building is firm and sound and that opportunity at least as great as the challenge exists for our Company.

We face increasing competition — and we are prepared to meet it. This competition lies not only in the attraction and retention of skilled people and in the raising of capital, but also in the sale of services. Over the years, we have become a provider of much more than basic telephone services and these developments have brought revenues to help ease the cost burden on basic service. They also have placed us into direct competition with other suppliers.



Burying cable,
Queen Charlotte Islands.



Sparwood, new East Kootenay community.



Electronic exchange building,
Mackenzie.

In these circumstances, increasing emphasis upon marketing efforts is essential. Accordingly, we have taken — and will continue to take — steps to strengthen our marketing programs.

Undoubtedly, within the reasonably near future we also will face some alteration of the legislative and regulatory conditions within which our Company must function. In September, 1969, the Canadian government's Department of Communications established the Telecommission and charged it with a far-reaching study of the Canadian telecommunications industry and the country's communications requirements. For the most part, this study has been completed but at the time of preparation of this report, Telecommission conclusions had not been made public. We can only speculate on the nature of the framework the Telecommission task forces might recommend for government policy and legislative or regulatory changes.

We know, however, that the industry's views were sought by the Telecommission and these were provided with substantial supporting evidence. We feel confident that changes which result will be enlightened and sufficiently flexible to permit the Company to manage its operations efficiently and to

meet fully its obligations to customers, employees and shareholders.

Certain other basic decisions with implications for the future were taken during 1970. Telesat Canada, the corporation established by federal legislation to build and manage a domestic communications satellite system, awarded a contract for building of the system's space segment and prepared to award contracts for earth-station construction. The schedule currently calls for launching of the satellite late in 1972.

Along with other members of the Trans-Canada Telephone System our Company is participating in the ownership of Telesat Canada and will be a user of satellite facilities. During 1970, the Canadian Transport Commission approved our Company's participation in this ownership, authorizing us to subscribe to 330,000 shares in Telesat Canada at \$10.00 per share. Of this total, 110,000 shares were purchased by our Company during 1970. The balance is to be taken up in four equal parts by January, 1972.

The Company's decision to participate in Telesat Canada has been taken in the belief that this is in the national interest of Canada and in the long-term interests of our customers and our shareholders. Gordon F. MacFarlane, our Vice-President—Corporate Development, was elected during the year to the Board of Directors of Telesat Canada.

The year also brought a continuing emphasis upon consumer protection and increasing demands for improved services and, while we were not always able to serve as well as we would have wished, our collective performance, by and large, met customer requirements effectively and efficiently.

We must continue to strive to improve that performance, however, and we are convinced this will be achieved through



Industrial development increases population and phone demands. This new pulp mill started up at Kitimat in 1970.







Black Tusk microwave site is part of new mountain-crossing transmission system.

the combined effects of individual effort by our employees, careful application of new technology and techniques and investor support.

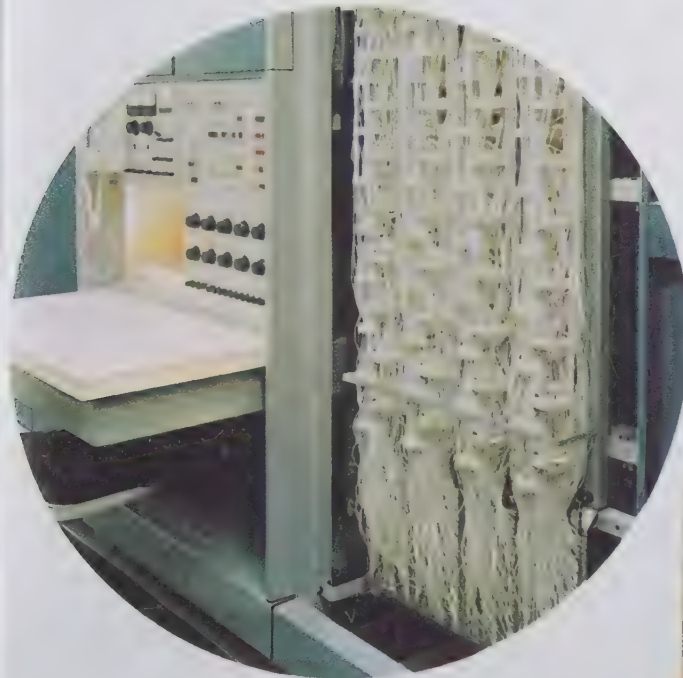
On behalf of the Board of Directors, I take this opportunity to express thanks to our employees and to our investors for their continued contributions to the success of this enterprise.

It is with deep regret that we also note here the death on August 22, 1970 of Fred B. Brown, who had been a Director of our Company from March 12, 1959. The Company and the community feel a great void in the loss of such a man, whose wide experience in both the economic and community life of British Columbia, whose gentle and human approach to events and circumstances, and whose untiring efforts given so freely without regard to personal acclaim, enabled him to bring wise counsel to our Board. His many contributions to both community and Company are recognized.

On behalf of the Board of Directors

President and Chief Executive Officer

February 15, 1971



Memory panel is part of electronic switch being installed in seven communities this year.



Control centre, electronic translator — the computerized "brain" for toll switching machine.

Mining developments are taking place across British Columbia where ore bodies are found. This one under construction is near Princeton.

Overhead telephone cables are disappearing in many parts of our system. In downtown Victoria (facing page) joint Company-City project is replacing overhead with underground. In new community of Gold River (right) and new Fernie subdivision, installations went underground from the start.



Review of Operations

Customer demand for exchange and long distance telephone services, as reflected in net gain in number of telephones connected and in volume of long distance traffic handled, increased throughout British Columbia again in 1970. The percentage increase in each case, however, was slightly below that of 1969 in the over-all picture, largely as a result of the economic factors outlined in the President's Report.

The net gain in telephones connected totalled 62,861, slightly ahead of last year's 60,519 for our consolidated operations. The volume of toll messages originated in our system grew to 42,700,000 from the previous year's 38,300,000. In relative terms, the increases were 6.4% in net telephone gain, compared with 6.6% in 1969 and 11% in toll message volume, compared with 16% in the previous year.

The requirement for expansion of the telephone network through which we serve virtually all of British Columbia continued to grow rapidly, partly to meet consumer demands for new services being made possible through technological advances, among them data transmission; and to meet customer demands for higher quality in switching and transmission and for better grades of service.

This requirement also reflects the necessity for the planning and expanding in advance of the communications network to assure that growing telephone needs can be met economically, efficiently — and on demand — as they arise in all locations throughout the large, geographically-rugged and sparsely-populated province we serve.

In view of all this, it was essential during 1970 for the Company to carry out an expansion program throughout its consolidated system requiring gross investment of \$95,111,000 — an increase of \$20,445,000 from 1969, or more than 27%. This investment might have been larger, for it did not enable us to meet fully every demand upon us for services. But it is necessary, at the same time, to carry out expansion and improvement of the network in an orderly fashion to assure efficient and economic provision of these services.

Another substantial increase in capital investment is required during 1971 and, accordingly, our plans call for expenditures exceeding \$116,700,000, with \$110,000,000 of this in the B.C. Telephone system and \$6,700,000 of it in the system of our subsidiary,

FIN





"Mr. P.G." phone booth in Prince George, one of many unique booth designs in Company's system, is patterned after city tourist symbol.



Panelphone.



Styleline dial-in-handset.



Multi-line touch-calling set.

Okanagan Telephone Company. These plans have been based carefully upon projected essential needs throughout British Columbia. Approximately 80% of the total investment in new plant and facilities during 1971 is required to meet growth, with the balance necessary for service improvements and replacement of worn-out plant. In keeping with our policy of placing facilities underground wherever possible and practical, more than \$13,300,000 of our 1971 cable installations will be placed underground.

The program in total will enable us to meet most customer demands for more and better long distance services, including additional data transmission requirements. It will enable us also to provide higher grades of service to many existing party-line subscribers; to provide new connections to meet a projected 1971 net gain of 68,000 in telephones serviced; and to meet some of the demands for further extensions of flat-rate calling. It also will increase our ability to meet growing customer requests for such services as touch-calling telephones.

By and large, through our 1970 expansion program, we were able to meet most immediate customer demands and to provide further strengthening of the foundation through which to fill future customer requirements as they arise.

Eight new automatic exchange offices were completed, and four new locations established as exchange service areas, bringing the number of offices at December 31, 1970 to 276. Five of the eight were portable offices installed to serve small but growing communities in the central and northern Interior of British Columbia—at Horsefly, 150 Mile House, Flatrock, Granisle and Chief Lake. Two permanent buildings were constructed at Brackendale, near Squamish on the south coast, and at Pitt Meadows in the Fraser Valley and these were equipped to serve growing populations. A ninth





The growth and change of British Columbia during its first century as a Province of Canada is no more graphically demonstrated than in this contrast of the skyline of Vancouver. The drawing depicts it as it was in the late 1800's. The photo is 1970.

new automatic office was installed late in the year and came into service early in 1971 to serve Elkford, the second new community spawned in three years by coal mining developments in the East Kootenay region of the province's southeast.

The number of telephones connected through all these offices at December 31, 1970 totalled 1,037,684 with 982,503 of these served by B.C. Telephone and 55,181 by Okanagan Telephone. The growth pattern throughout the province is indicated by this station gain summary, set out according to operating divisions:

	TELEPHONES IN SERVICE			Capital Expenditures 1970 (000's)
	December 31 1970	Increase 1970	Increase %	
Coastal	626,689	35,142	5.9	\$55,685
Island	191,601	9,658	5.3	12,929
Interior	94,293	7,410	8.5	11,165
Northern	69,920	6,171	9.7	9,134
Totals	982,503	58,381	6.3	88,913
Okanagan	55,181	4,480	8.8	6,198
Totals	1,037,684	62,861	6.4	\$95,111

The Company enlarged two existing exchange buildings — Qualicum and Courtenay — to house new switching and related equipment for the provision of local service. Construction was begun on six new exchange buildings and enlargement of seven others. The latter are in Cranbrook, Campbell River, Wellington in the Nanaimo exchange, Keating in the Saanich area of Greater Victoria's exchange, Trinity office in Vancouver, Hemlock in Burnaby, and North Vancouver.

The seven new buildings started during 1970 are scheduled for completion during the current year and will house the first electronic switching centres of their kind installed anywhere in Canada. These units, designed and built in Canada, are called C-1-EAX, which stands for first Canadian electronic exchange. Each is a computer-like electronic switch which reads dial or touch pad pulses from telephone sets and completes connections almost instantly. The first seven such switches are being installed at Winfield and Lakeview Heights in the Okanagan; at Port Hardy, on the northern end of Vancouver Island; at Lantzville, near Nanaimo; at the new community of Sparwood in the East Kootenay; and at Mackenzie and Houston in the north-central interior.

Among the largest of hundreds of switching and distribution equipment additions made in central office areas throughout the system were those carried out in the Oak Bay office of the Victoria exchange, where 4,000 customers were transferred to release facilities to meet growth demands in the downtown Victoria office area; in the Mutual office which serves more than 78,000 phones in downtown Vancouver; and in the Vernon office of the Okanagan Company, where a new switching system was required to accommodate growth in customer demands.

In long distance service, additions and changes were made during the year at our operator centres, which numbered 17 at year end, and capacity of our transmission networks was increased with additions to existing systems and completion of new



Our consolidated service area includes virtually all of British Columbia's rugged terrain. Dots on this map of the Province represent locations of our 276 exchange offices.

ones, among them the \$8,620,000 Northern Interprovincial Radio System from Vancouver up the coast to Squamish, across the rugged coast mountains towards Kamloops, then north to Prince George and across the Rockies to Dawson Creek and thence to Alberta. It has a specially-designed computerized alarm and control system to simplify maintenance and, during 1970, provided 1,200 circuits of additional capacity for interprovincial and intraprovincial toll message traffic.

The southern Trans-Canada Telephone System microwave facility, which carries the signals of two national television networks as well as voice and data, also was improved and expanded during the year, and the system to Kamloops from Vancouver was enlarged to carry not only additional voice and data traffic, but also the signal of a Vancouver television station into the Interior and Okanagan areas.

Centralizing of toll services by region continued during the year, bringing improved services and increased efficiency in the West Kootenay, North Okanagan and Prince George areas. In the West Kootenay, the primary toll centre was enlarged at Nelson, permitting the closing of the operator centre at Trail and the introduction of Direct Distance Dialing for more than 25,000 telephones in 16 communities. This brought to 91% the portion of our total telephones which now have facilities enabling customers to dial long distance calls directly.

In the East Kootenay, currently one of the fastest-growing regions of British Columbia as a result of mining

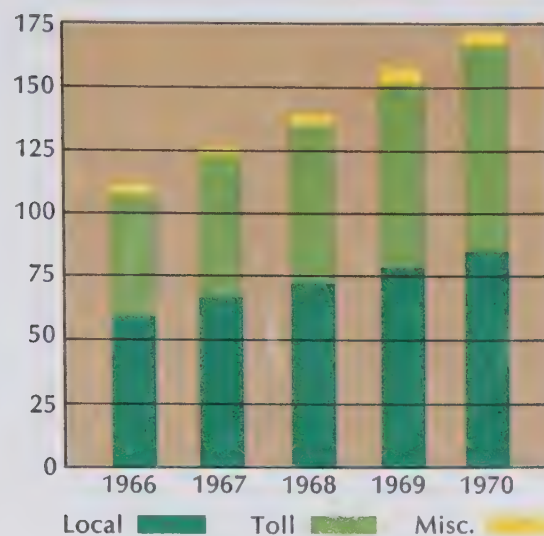
and forestry activities, growth in demand for both local and toll services exceeded our capacity to supply it during 1970 in spite of record-breaking expansion. By year end, however, completion of additional installations had enabled us to overcome most service shortages and these will be further overcome during 1971 with an even larger expansion undertaking.

The expansion of telephone plant through which we serve British Columbia's more than 2,200,000 population enables us to offer and provide communications services not only in greater volume and increased quality, but also in greater variety.

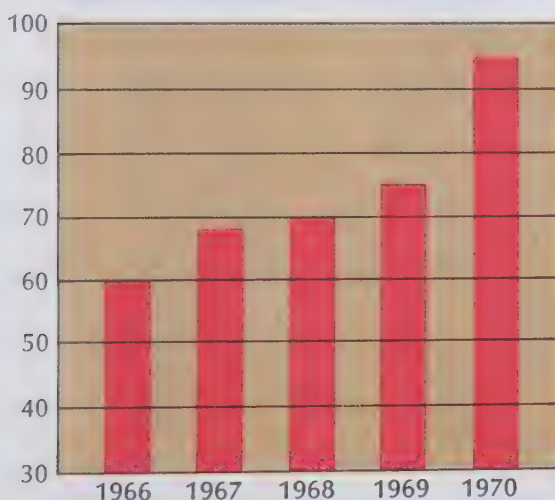
Among the additions to the variety during 1970 was the introduction in mid-year — through the facilities of members of the Trans-Canada Telephone System — of a new high-speed data communications service available on a pay-as-you-use basis. It is called 'Multicom Service,' and it made available for the first time in Canada a switched network to transmit information at speeds up to 60,000 words a minute.

It is our people, of course, who make our plant serve its function and — because ours is a service business — their skills, talents and attitudes are of utmost importance to our over-all success. We continue to focus strong emphasis upon employee recruitment and training and, during the year, progress was made in augmenting the specialized training provided to more than 2,000 employees annually and in the application of additional programs to give added emphasis to management development. At year end our employee force included 9,636 men and women, an increase of 747 for the 12-month period.

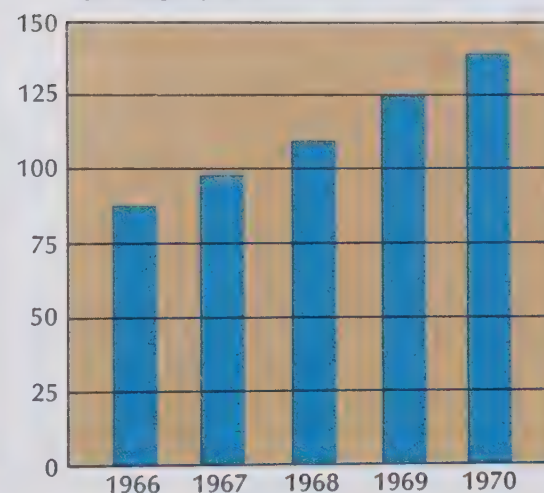
Gross Revenue Millions of dollars



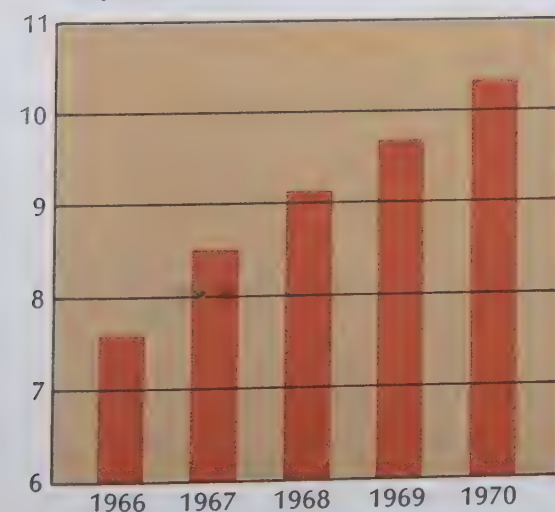
Gross Plant Additions Millions of dollars



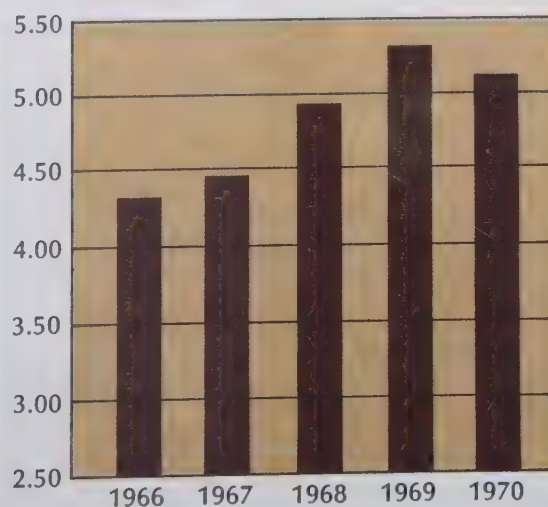
Operating Expenses Millions of dollars



Telephones in Service Hundreds of thousands



Earnings Per Share Dollars



Financial Results

Consolidated gross revenues, which for the year totalled \$174,870,000, were 11% higher than those of 1969. Reflecting the slower rate of growth in the overall provincial economy, the rate of increase in revenue growth was below the 13% gain recorded in 1969.

Revenues from each area of service were up but, in toll, where revenues are more sensitive to general economic conditions, the rate of growth was below that of the previous year. Exchange service revenues increased by 9% compared with 8% in 1969, while toll revenues increased 13% compared with 18% in 1969.

Operating expenses, excluding income taxes, amounted to \$122,656,000 and, despite all efforts to limit the growth in expenses, the increase was 14.5%, almost the same level of increase as in 1969 when the rate was 14.6%. Shorter working hours negotiated for some classes of employees, effective January 1, 1970, and the increased amount of plant in service necessitated additional staff which, together with increased wage rates and other costs, all contributed to the increase in operating expenses.

Earnings available for interest, other fixed charges and dividends totalled \$36,739,000, compared with \$33,935,000 in 1969. While these earnings did

increase, the average capital invested in the Company increased at a faster rate with the result that the rate of return on average invested capital decreased from 7.08% to 7.02%.

As a result of the increase in invested debt capital and the high interest rates demanded by the market, interest and amortization of debt expense increased by \$2,947,000 or 20% over 1969.

During the year, First Mortgage Bonds totalling \$60,000,000 were sold. A \$30,000,000 issue of 20-year bonds, Series N, bore a coupon of $9\frac{1}{8}\%$ and carried the privilege of prepayment in five years at the holder's option. Bonds dated November 16, 1970, for a term of 22 years and totalling \$30,000,000 were sold in two series, \$18,000,000 Series O with an interest rate of $9\frac{5}{8}\%$ and \$12,000,000 Series P with an interest rate of $9\frac{1}{8}\%$ and the privilege of prepayment at the holder's option in six years.

The Company continued to obtain its temporary funds for construction purposes in the short-term money market as well as through bank borrowings. Interest rates in these markets declined substantially during the year and at year-end total notes outstanding amounted to \$23,404,000 at an interest cost of about $6\frac{1}{2}\%$.

The cumulative result of the above factors brought about a slight decrease in total net earnings, which for 1970 were \$19,052,000, compared with \$19,195,000 in 1969. After preference and preferred dividends of \$4,391,000, unchanged from the previous year, there remained \$14,661,000 for ordinary shares, down from \$14,804,000 in 1969.

The average number of ordinary shares outstanding for 1970 was higher than in 1969, reflecting the effects for the full year of the issue of 287,700 additional

shares in April, 1969. This factor, together with the lower ordinary share earnings, resulted in earnings per average ordinary share declining to \$5.10 in 1970 from the previous year's \$5.28.

Ordinary share dividends declared during 1970 totalled \$8,775,000, up from \$8,416,000 in 1969, the increase reflecting the larger number of shares outstanding and dividends declared of \$3.05 per share, compared with \$3.00 in the previous year. The remaining \$5,886,000 was retained in the business for growth and development.

Income tax provisions totalled \$16,988,000, down from \$18,082,000, the decrease resulting from reduced taxable income. The Company continued to claim maximum capital cost allowance under the Income Tax Act and income tax deferrals in 1970 amounted to \$10,301,000 bringing the total of such deferrals at December 31, 1970, to \$50,985,000. These are shown under the balance sheet caption, Income Taxes Deferred.

Figures in this report and accompanying financial statements represent the consolidated results of our Company and of the Okanagan Telephone Company, in which our interest at year end stood at 99.8%.

BRITISH COLUMBIA TELEPHONE COMPANY

CONSOLIDATED STATEMENT OF EARNINGS

For the years ended December 31, 1970 and 1969

	1970	1969
	Thousands of Dollars	
OPERATING REVENUES		
Local service	\$ 85,448	\$ 78,363
Toll service	84,906	74,969
Miscellaneous	7,042	6,106
Less—Uncollectible operating revenues	2,526	1,394
Total Operating Revenues	<u>174,870</u>	<u>158,044</u>
OPERATING EXPENSES		
Maintenance	36,554	29,583
Depreciation (Note 2)	34,338	32,719
Traffic	14,718	13,985
Commercial	10,764	8,986
General and administrative (Note 3)	19,286	15,583
Provincial, municipal and other taxes	6,996	6,298
Income taxes (Note 4)	16,988	18,082
Total Operating Expenses	<u>139,644</u>	<u>125,236</u>
OPERATING EARNINGS	35,226	32,808
Other income	1,513	1,127
Earnings Before Interest and Other Deductions	<u>36,739</u>	<u>33,935</u>
INTEREST AND OTHER DEDUCTIONS		
Interest on long-term debt	14,740	12,404
Other interest	2,642	2,060
Amortization of long-term debt expense	305	276
	<u>17,687</u>	<u>14,740</u>
NET EARNINGS	19,052	19,195
Preference and preferred dividends	4,391	4,391
ORDINARY SHARE EARNINGS	<u>\$ 14,661</u>	<u>\$ 14,804</u>
EARNINGS PER AVERAGE ORDINARY SHARE	\$5.10	\$5.28
DIVIDENDS DECLARED PER ORDINARY SHARE	\$3.05	\$3.00

CONSOLIDATED BALANCE SHEET

As at December 31, 1970 and 1969

ASSETS

	1970	1969
	Thousands of Dollars	
TELEPHONE PLANT, at cost	\$755,491	\$678,715
Less — Accumulated depreciation (Note 2)	174,571	155,765
	<u>580,920</u>	<u>522,950</u>
INVESTMENTS AND OTHER ASSETS, at cost	<u>1,777</u>	<u>703</u>
CURRENT ASSETS		
Cash	331	592
Accounts receivable	21,278	22,432
Income taxes recoverable	1,502	—
Material and supplies, at cost	8,042	7,757
Prepayments	2,040	1,863
	<u>33,193</u>	<u>32,644</u>
DEFERRED CHARGES		
Unamortized long-term debt expense	5,143	4,284
Other (Note 5)	4,117	2,957
	<u>9,260</u>	<u>7,241</u>
Approved for Board of Directors, C. H. McLEAN, Director		
J. E. RICHARDSON, Director	<u>\$625,150</u>	<u>\$563,538</u>

LIABILITIES

	1970	1969
	Thousands of Dollars	
CAPITALIZATION (per accompanying statement)		
Ordinary share equity	\$159,603	\$153,717
Preference and preferred shares	83,500	83,500
Minority interest in subsidiary	460	460
Long-term debt	<u>284,030</u>	<u>224,538</u>
Total Capitalization	527,593	462,215
SHORT-TERM NOTES	<u>23,404</u>	<u>34,558</u>
Total Capitalization and Short-Term Notes	<u>550,997</u>	<u>496,773</u>
CURRENT LIABILITIES (excluding current redemptions of long-term debt of \$35,867,000 and \$396,000 respectively and short-term notes)		
Accounts payable	11,604	13,106
Income taxes payable	—	3,103
Dividends payable	3,224	3,081
Accrued interest	4,657	3,513
Unearned revenues	<u>3,683</u>	<u>3,278</u>
	<u>23,168</u>	<u>26,081</u>
INCOME TAXES DEFERRED (Note 4)	<u>50,985</u>	<u>40,684</u>
COMMITMENTS (Notes 6 and 7)		
	<u>\$625,150</u>	<u>\$563,538</u>

CONSOLIDATED STATEMENT OF CAPITALIZATION

As at December 31, 1970 and 1969

	1970	1969
	Thousands of Dollars	
Authorized Share Capital \$250,000,000		
ORDINARY SHARE EQUITY		
Ordinary shares of par value of \$25 each; 2,877,000 shares issued and outstanding	\$ 71,925	\$ 71,925
Premium on ordinary shares	42,548	42,548
Earnings retained for use in the business	45,130	39,244
	<u>159,603</u> 30%	<u>153,717</u> 33%
CUMULATIVE PREFERENCE AND PREFERRED SHARES		
Par Value of \$100 Each	Redemption Premium	
6% Preference	10%	1,000
6% Preferred	5%	4,500
4¾% Preferred	5%	7,500
4¾% Preferred (Series 1956)	4%	7,500
4½% Preferred	4%	5,000
4¾% Preferred	4%	6,000
5¾% Preferred	4%	10,000
5.15% Preferred	5%	12,000
Par Value of \$25 Each		
4.84% Preferred	4%	20,000
6.80% Preferred (Not redeemable before June, 1978)	6%	10,000
	<u>83,500</u> 16%	<u>83,500</u> 18%
MINORITY INTEREST IN SUBSIDIARY	<u>460</u>	<u>460</u>
LONG-TERM DEBT		
British Columbia Telephone Company		
First Mortgage Bonds		
Series A 3¾% due March 1, 1971 (see below)	16,500	16,500
Series B 3⅛% due March 1, 1971 (see below)	3,000	3,000
Series C 3¾% due March 1, 1971 (see below)	8,000	8,000
Series D 4½% due March 1, 1971 (see below)	8,000	8,000
Series E 4¾% due October 1, 1975	7,000	7,000
Series F 5% due April 1, 1982	25,000	25,000
Series G 5¼% due November 1, 1983	20,000	20,000
Series H 6% due September 15, 1984	15,000	15,000
Series I 5¾% due August 1, 1985	15,000	15,000
Series J 5¾% due July 15, 1986	20,000	20,000
Series K 5⅝% due April 15, 1988	20,000	20,000
Series L 6¾% due October 15, 1989	30,000	30,000
Series M 6⅜% due March 15, 1991	30,000	30,000
Series N 9⅛% due April 1, 1990	30,000	—
Series O 9⅝% due November 15, 1992	18,000	—
Series P 9⅛% due November 15, 1992	12,000	—

CONSOLIDATED STATEMENT OF CAPITALIZATION (Continued)

	1970	1969
	Thousands of Dollars	
Okanagan Telephone Company		
General Mortgage Sinking Fund Bonds due 1971 to 1986 at interest rates of 5% to 6½ %	6,530	7,038
	<u>284,030</u> 54%	<u>224,538</u> 49%
Total Capitalization	<u>527,593</u> 100%	<u>462,215</u> 100%
SHORT-TERM NOTES (pending permanent financing)		
Promissory notes, 30 to 98 day duration at interest rates of 5⅞ % to 6.85%	15,404	23,758
Bank demand notes at interest rate of 7.25%	3,000	10,800
Demand note payable to parent company at interest rate of 6%	5,000	—
	<u>23,404</u>	<u>34,558</u>
Total Capitalization and Short-Term Notes	<u>\$550,997</u>	<u>\$496,773</u>

The Deed of Trust and Mortgage of British Columbia Telephone Company requires an annual sinking fund payment of 1% of the principal amount of its bonds outstanding or the pledge of additional unmortgaged property. The Company's policy is to use the latter alternative and therefore in effect does not make sinking fund payments. The Deed of Trust and Mortgage of Okanagan Telephone Company requires an annual sinking fund payment of 2% of the original principal sum of each issue and this requirement, together with the debt maturities of both companies during each of the next five years, is: 1971, \$35,867,000; 1972, \$145,000; 1973, \$145,000; 1974, \$145,000; 1975, \$7,463,000. The Company is in the process of finalizing an additional issue of First Mortgage Bonds which will provide the necessary funds to retire the \$35,500,000 aggregate principal amount of Series A to D Bonds which mature on March 1, 1971.

At December 31, 1970, the First Mortgage Bonds Series E are callable at a premium of 1%. Series F to P have not reached their call dates. In addition, the holders of any Series N or P Bonds have the right to elect that the Company shall repay the principal amount of such Bonds on April 1, 1975 and November 15, 1976 respectively. The Okanagan Telephone Company's General Mortgage Sinking Fund Bonds are callable at premiums ranging from .5% to 6.25%.

CONSOLIDATED STATEMENT OF EARNINGS RETAINED FOR USE IN THE BUSINESS

For the years ended December 31, 1970 and 1969

	1970	1969
	Thousands of Dollars	
BALANCE AT BEGINNING OF YEAR	\$ 39,244	\$ 32,903
Ordinary share earnings	<u>14,661</u>	<u>14,804</u>
	53,905	47,707
Less—		
Ordinary share dividends	8,775	8,416
Share issue expenses	<u>—</u>	<u>47</u>
BALANCE AT END OF YEAR	<u>\$ 45,130</u>	<u>\$ 39,244</u>

BRITISH COLUMBIA TELEPHONE COMPANY

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

For the years ended December 31, 1970 and 1969

	1970	1969
	Thousands of Dollars	
SOURCE OF FUNDS		
From Operations		
Net earnings	\$ 19,052	\$ 19,195
Add back expenses not requiring an outlay of funds		
Depreciation	34,338	32,719
Income taxes deferred	10,301	8,777
Other	723	693
	<u>64,414</u>	<u>61,384</u>
Financing proceeds		
Ordinary shares	—	17,222
Long-term debt	58,863	—
Increase (decrease) in short-term notes	(11,154)	8,558
	<u>\$112,123</u>	<u>\$ 87,164</u>
APPLICATION OF FUNDS		
Gross plant additions	\$ 95,111	\$ 74,666
Less — Salvage value of plant retired	2,360	1,790
	<u>92,751</u>	<u>72,876</u>
Dividends — preference and preferred shares	4,391	4,391
ordinary shares	8,775	8,416
Miscellaneous	2,744	1,209
Net change in working capital	3,462	272
	<u>\$112,123</u>	<u>\$ 87,164</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Note 1: PRINCIPLES OF CONSOLIDATION**

The Company owns 99.8% of the common shares of Okanagan Telephone Company, 97.6% of such shares having been acquired in December, 1966, and the consolidated financial statements incorporate this subsidiary company's accounts.

Note 2: DEPRECIATION

Depreciation rates are determined by a continuing program of engineering studies for each class of telephone plant in service, and depreciation provisions are calculated by applying such rates to the Company's investment therein each month. This procedure resulted in a composite rate of 5.14% for 1970 (5.44% in 1969).

Depreciation for Okanagan Telephone Company is computed in conformity with requirements of the Public Utilities Commission of British Columbia whereby approved depreciation rates for each class of plant are applied to the Company's investment in such plant at the beginning of the year. This procedure resulted in a composite rate of 4.68% for 1970 (4.64% in 1969).

Accumulated depreciation at December 31, 1969 was overstated by an amount of \$6,368,000 resulting from a change to a more appropriate method of determining the depreciation rate applicable to the Company's investment in telephone station connections. This over-provision is being eliminated

over a five-year period commencing with 1970, with the result that depreciation expense for the year ended December 31, 1970 has been reduced by \$1,278,000.

Note 3: GENERAL AND ADMINISTRATIVE EXPENSE

	1970	1969
	Thousands of Dollars	
Finance services	\$ 5,926	\$ 5,086
Engineering	3,215	2,289
Executive and administrative services	3,890	3,001
Directors' remuneration as director or officer	110	110
Stationery, rents, insurance and other	4,058	3,405
Pensions and other benefits	5,404	4,396
Less—Charged to construction	3,317	2,704
	<u>\$19,286</u>	<u>\$15,583</u>

Note 4: INCOME TAXES

Income tax expense includes \$10,301,000 in 1970 (\$8,777,000 in 1969) of taxes which are not currently payable due to the Company claiming for income tax purposes certain amounts, principally capital cost allowances in excess of depreciation recorded in the accounts, which have not yet been charged against income.

The accumulated amount of income taxes otherwise payable as a result of the above income tax timing differences is shown on the Balance Sheet as Income Taxes Deferred.

Note 5: OTHER DEFERRED CHARGES

This item primarily represents preliminary capital project engineering costs and equipment purchases which will be distributed to the telephone plant accounts during the following year.

Note 6: PENSIONS

The Company and its subsidiary have pension plans under which employees, upon retirement, receive a monthly pension if conditions related to age and period of service have been met. The total pension provision accrued for the year

was \$4,127,000 (\$3,525,000 in 1969) which includes \$1,124,000 in both years for the amortization of past service costs together with interest thereon over 25 years from January 1, 1965. The Company funds the annual pension cost accrued and the fund exceeds any benefits vested with the employees. Based on an actuarial study received during 1968, the estimated unfunded liability for past service cost is \$11,811,000 at December 31, 1970.

Note 7: CONSTRUCTION PROGRAM

The Company and its subsidiary have announced construction programs for additional telephone plant and facilities in 1971 which are estimated to cost \$117,000,000 and substantial purchase commitments have been made in connection therewith. The companies intend to finance their construction program by cash available from operations to the extent of approximately \$57,000,000 and the balance by short-term notes pending permanent financing.

AUDITORS' REPORT

To the Shareholders of British Columbia Telephone Company:

We have examined the consolidated balance sheet and statement of capitalization of BRITISH COLUMBIA TELEPHONE COMPANY and its subsidiary, Okanagan Telephone Company, as of December 31, 1970, and the related consolidated statements of earnings, earnings retained for use in the business and source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have previously examined and reported on the financial statements for the preceding year.

In our opinion, the accompanying consolidated financial statements referred to above present fairly the financial position of British Columbia Telephone Company and its subsidiary as of December 31, 1970, and the results of their operations and the source and application of their funds for the year then ended, in conformity with generally accepted accounting principles applied, other than for the change to an acceptable alternative method of determining the telephone station connection depreciation rate referred to in Note 2, on a basis consistent with that of the preceding year.

Vancouver, Canada
January 29, 1971.

ARTHUR ANDERSEN & CO.
Chartered Accountants

BRITISH COLUMBIA TELEPHONE COMPANY

Ten-Year Record of Progress

PARTICULARS

1970

1969

SELECTED INCOME ACCOUNT ITEMS (Thousands of Dollars)

1	Total operating revenues	\$ 174,870	\$ 158,044
2	Local service	85,448	78,363
3	Toll service	84,906	74,969
4	Total operating expenses	139,644	125,236
5	Salaries and wages	54,167	44,546
6	Other operations expense	27,155	23,591
7	Depreciation	34,338	32,719
8	Provincial, municipal and other taxes	6,996	6,298
9	Income taxes	16,988	18,082
10	Earnings before interest and other deductions	36,739	33,935
11	Interest and other deductions	17,687	14,740
12	Preference and preferred dividends	4,391	4,391
13	Ordinary share dividends	8,775	8,416
14	Transfer to retained earnings	5,906	6,388
15	Earnings per average ordinary share	\$ 5.10	\$ 5.28
16	Dividends declared per ordinary share	\$ 3.05	\$ 3.00

SELECTED BALANCE SHEET ITEMS (Thousands of Dollars)

17	Investment in telephone plant	\$ 755,491	\$ 678,715
18	Accumulated depreciation	174,571	155,765
19	Total invested capital	550,997	496,773
20	Short-term notes	23,404	34,558
21	Long-term debt	284,030	224,538
22	Minority interest in subsidiary	460	460
23	Preference and preferred shares	83,500	83,500
24	Ordinary share equity	\$ 159,603	\$ 153,717

SELECTED STATISTICS

25	Telephones in service	1,037,684	974,823
26	Percent dial	99.7%	99.7%
27	Percent D.D.D.	91.6%	89.3%
28	Net plant investment per telephone	\$ 560	\$ 536
29	Central offices — dial	272	264
30	Central offices — manual	4	2
31	Gross plant additions (Thousands of Dollars)	\$ 95,111	\$ 74,666
32	Average daily local calls	6,486,692	6,234,129
33	Average daily toll messages	171,483	149,169
34	Total salaries and wages (Thousands of Dollars)	\$ 74,217	\$ 60,808
35	Number of employees	9,636	8,889
36	Number of shareholders	22,927	23,503

The above record includes, for the years 1967 to 1970, the related statistics of Okanagan Telephone Company, which has been operated a

1968	1967	1966	1965	1964	1963	1962	1961
\$ 139,389	\$ 126,828	\$ 112,527	\$ 99,701	\$ 87,475	\$ 77,392	\$ 71,635	\$ 67,372
72,641	67,410	59,279	53,906	49,292	45,822	43,579	40,826
63,391	56,552	50,746	43,561	35,987	29,674	26,524	23,685
109,430	99,214	88,799	77,669	67,750	59,572	55,222	51,968
38,950	36,423	32,472	26,339	23,045	20,865	20,019	19,443
20,096	17,989	16,087	14,254	12,671	10,432	10,269	10,296
28,832	26,450	22,945	21,345	18,535	15,649	13,926	11,634
5,595	4,863	3,934	3,218	2,835	2,568	2,325	2,327
15,957	13,489	13,361	12,513	10,664	10,058	8,683	8,268
30,911	28,535	24,185	22,135	19,955	18,250	16,865	15,781
13,975	13,201	9,350	8,431	8,026	7,322	7,382	6,988
4,179	3,716	3,691	3,824	3,473	3,319	2,855	2,855
6,991	6,603	6,214	5,696	5,524	5,294	4,431	4,069
5,766	5,015	4,930	4,184	2,932	2,316	2,198	1,869
\$ 4.93	\$ 4.49	\$ 4.30	\$ 4.16	\$ 3.67	\$ 3.31	\$ 3.29	\$ 3.21
\$ 2.70	\$ 2.55	\$ 2.40	\$ 2.40	\$ 2.40	\$ 2.30	\$ 2.20	\$ 2.20
\$ 616,605	\$ 559,922	\$ 480,762	\$ 429,967	\$ 393,361	\$ 362,955	\$ 335,865	\$ 308,366
133,396	116,035	97,664	83,072	69,619	57,782	48,225	41,238
464,768	438,670	398,969	345,740	321,005	302,073	286,637	267,814
26,000	14,500	18,300	—	2,500	6,500	5,000	—
224,701	225,513	187,500	157,500	157,500	137,500	137,500	140,393
460	473	—	—	—	—	—	—
83,500	73,500	73,500	73,500	65,500	65,500	53,500	53,500
\$ 130,107	\$ 124,684	\$ 119,669	\$ 114,740	\$ 95,505	\$ 92,573	\$ 90,637	\$ 73,921
914,304	855,657	761,129	709,564	661,708	625,103	594,292	568,022
99.6%	99.0%	98.7%	98.6%	98.3%	97.7%	96.9%	90.4%
88.1%	76.1%	72.2%	72.7%	70.1%	68.4%	67.3%	54.1%
\$ 528	\$ 519	\$ 503	\$ 489	\$ 489	\$ 488	\$ 484	\$ 470
259	245	205	199	183	159	140	106
3	10	16	16	19	26	37	59
\$ 70,803	\$ 68,431	\$ 60,682	\$ 47,984	\$ 39,272	\$ 35,892	\$ 37,545	\$ 30,801
5,704,625	5,308,958	4,894,027	4,483,761	4,200,799	3,896,393	3,735,403	3,565,308
128,911	112,033	97,599	87,441	72,442	65,725	63,274	56,828
\$ 53,372	\$ 48,197	\$ 42,004	\$ 35,568	\$ 30,785	\$ 27,876	\$ 27,012	\$ 25,828
7,991	7,554	7,243	6,337	5,696	5,423	5,330	5,511
24,274	21,800	22,498	23,067	23,609	24,722	23,993	23,788

a subsidiary of the Company from January 1, 1967.

People Make it Happen

The heart of any telephone system is its people, skilled people who apply their talents, and a host of sophisticated machinery to make the phone network function and meet the requirements of customers. Our people now number more than 9,000 men and women employed in a wide variety of assignments and actively contributing to their communities, both on and off the job. The photos on these pages show but a few of all those whose individual efforts have contributed to our collective success.



Plowing buried cable, Vancouver Island.



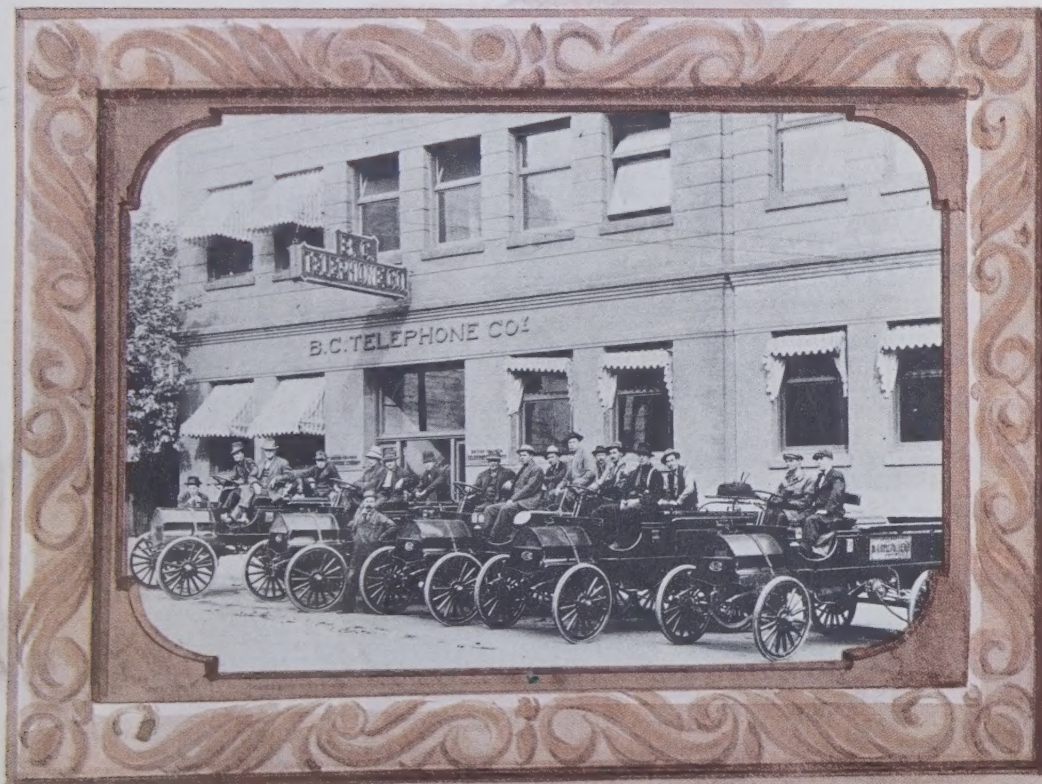
Coin phone installation, Roberts Bank harbour.



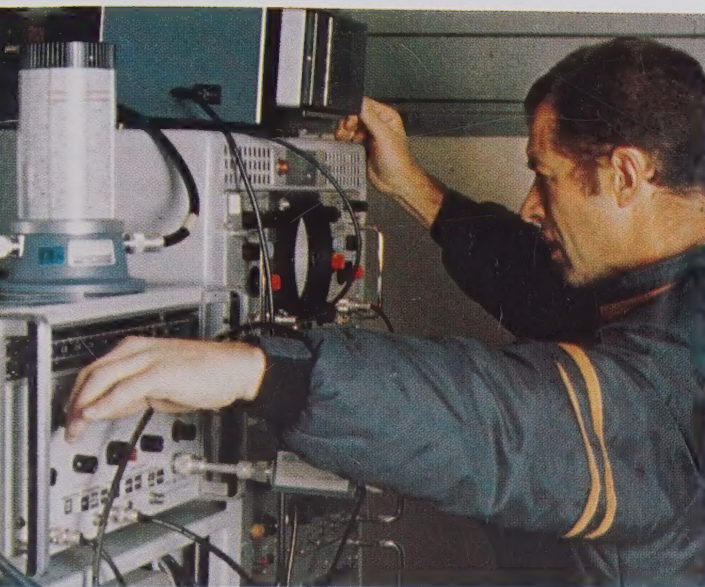
Counting coin phone returns, Vancouver.



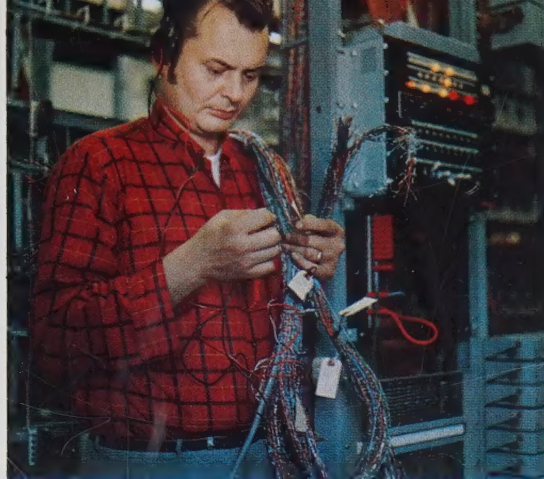
Submarine cable work on Interior lake.



Machinery has changed over the years. This was our vehicle fleet in 1912.



Checking microwave site waveguide, Hixon.



Switching additions are made, Sechelt.



Congratulations to provincial champion first aid team.



Nancy Greene prepares a safety message for TV.



Booth for "Millionth Phone" is built.



Rack room, where connections are made.



Underground cable placement, Vancouver Island.



Operator positions, new Nelson toll centre.



BRITISH COLUMBIA 1871-1971